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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Interest Rate Relief . . .

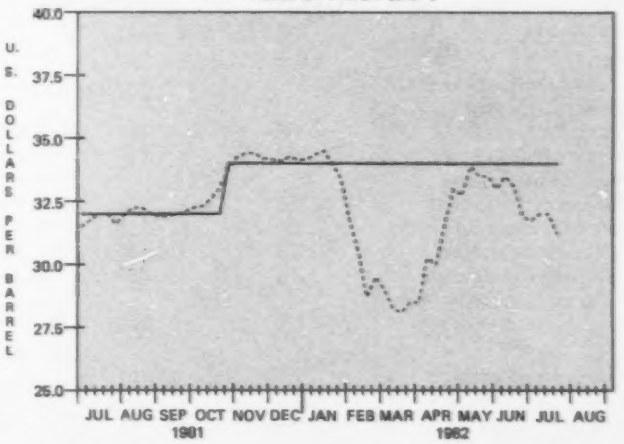
The midsummer break in short-term interest rates may provide the economy with about as much relief as an afternoon shower on a hot summer day—welcome, but all too brief. Last week, the relief ended with word from Washington that not only did the Federal budget picture worsen in June, but there was a sharp upward revision of prospective Treasury credit needs, as well. These back-to-back announcements suggest that the likely course of future Federal budget developments will involve an unending hemorrhage of red ink and an ever-growing volume of Treasury borrowings to plug the gap.

It is true that, according to the Treasury Department, the Federal budget posted a $6.72 billion surplus in June. However, June is a traditionally strong month in which quarterly individual and corporate income taxes are collected. The problem is—the black ink total was less than one-half the size of the $15.36 billion surplus posted during the same month of 1981. With tax receipts depressed due to sluggish personal incomes growth and the evaporation of a good-sized chunk of corporate profits, it is hardly surprising that receipts fell almost six per cent in June, year-over-year. Expenditures, on the other hand, continued to surge ahead because of stepped-up defense and income security outlays. These trends highlighted again the progressive deterioration of the Federal government's financial position by bringing the red ink total for the first nine months of fiscal 1982 to just a shade under $75 billion. This is almost $26 billion higher than the deficit posted during the same period of fiscal 1981. If the past is any guide, a continuation of these trends over the remainder of the fiscal year would result in a full year deficit of almost $90 billion.

. . . May Be Short-Lived

But the past is hardly likely to offer any guidance this year—accurate or otherwise. For at the same time that the disappointing June budget results were being announced, the Treasury also substantially revised upward its estimate of probable third quarter credit needs—and, in so doing, revealed the likely size of the deficit the government will have to finance. Whereas the Treasury had earlier expected to raise between $32 and $37 billion in net new cash during the July-September period, it now plans to raise at least $50.5 billion. This is not far from the total amount of net new cash raised in the second half of 1981—and it is a staggering four and one-half times the net amount raised in the second quarter of this year!

CRUDE OIL: ARABIAN LIGHT OFFICIAL PRICE (LINE) VS. SPOT PRICE (DOT)



Since the largest proportion of these borrowings will be used to finance Washington's "on-budget" deficit, the upward revision of borrowing needs is not good news. Put simply, after allowing for the financing needs associated with boosting the Treasury's cash balance to $20 billion by quarter's end, the likely level of "off-budget" spending, and net redemptions of such nonmarketable securities as savings bonds, the Treasury's debt managers are apparently expecting a quarterly deficit somewhere in the neighborhood of $34 to $36 billion. If so, adding this to the $75 billion red ink total already on the books brings the deficit for fiscal year 1982 to about $110 billion—$50 billion more than last fiscal year, and a formidable roadblock on the path to a healthy private economy.

Easing Oil Prices . . .

The rapid rise in the consumer price index (CPI) in the last two months—one per cent per month in May and June—owes much to the sharp rise in gasoline

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prices. After falling by almost 15 per cent from March, 1981 through April, 1982 the price of gasoline in May rose by almost one per cent. In June, prices jumped an additional 5.4 per cent as the rising cost of crude petroleum imports, which began in early April (Financial Digest—May 17, 1982), reached the retail level.

The CPI is particularly sensitive to changes in energy prices. For example, if all other components of the CPI were to hold steady, an eight per cent increase in the retail price of gasoline would result in a one-half per cent rise in the CPI. Thus, gyrations in oil prices, which lead to gasoline price fluctuations, can have a profound effect on inflation rates—adding to their volatility.

In the last several weeks, however, conditions in the petroleum market appeared to be easing again. The price of imported oil has declined. The spot price for Saudi Arabian light crude oil, which is the "marker" oil for OPEC prices, slipped from a recent high of $33.90 per barrel in mid-May to below $32 per barrel in mid-July (see chart). OPEC production, which hit an estimated low of 15.9 million barrels per day (bpd) in April, is now back up to approximately 18.5 million bpd—the principal cause of easing prices.

Imports of crude petroleum and petroleum products have risen by about 25 per cent since mid-May. From a four-week average of 3.6 million bpd (period ending May 21), oil imports increased to 4.5 million

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/21/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	143.467	+ 2.669	+10.183
Loans to Depository Inst.	.595	+ .037	– 1.135
Float	2.055	– .887	– 1.179
Total Reserve Bank Credit	155.522	+ 2.387	+ 6.591
Treasury Deposits with Federal Reserve Banks	3.181	– .168	+ .075
Currency Outside Banks	133.495	+ .850	+ 7.828
Member Bank Reserves:			
Required	40.359	+ 1.402	– .944
Excess (Deficiency)	.350	+ .116	– .047
Total Reserves Held	40.709	+ 1.518	– .991
Net Borrowed Reserves	.006	– .087	– 1.083
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.479	– .246	+ 1.568

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	450.8	– 1.9‡	+ 4.8‡
M2 (June '82)	1,907.4	+ 9.1	+ 9.6
M3 (June '82)	2,295.0	+ 10.6	+ 10.2
L (March '82)	2,716.8	+ 11.2	+ 11.4

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 7/30/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.10%	11.00%	11.20%
* Federal Agencies	10.75	11.65	12.80
* Project Notes—Taxfree (46% Taxable Equivalent)	12.78	13.43	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.90	11.85	13.38

‡Finance Company Paper—Prime

5- 14 days	10.50%
15- 29 days	10.75
30- 59 days	11.25
60- 89 days	11.38
90-179 days	11.63
180-239 days	11.63
240-270 days	11.63

‡* Bankers' Acceptances

Aug.	11.25%
Sep.	11.35
Oct.	11.50
Nov.	11.70
Dec.	12.00
Jan.	12.10

‡Industrial Paper—Prime

30- 89 days	11.63%
90-120 days	11.90

†Federal Funds Effective Rate 11.38%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,047	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,477	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	1.7	– 5.1	– 1.5
Change in Consumer Prices (all urban consumers)*	Jun '82	12.0%	12.0%	8.4%
Change in Producer Prices*	Jun '82	12.0%	0.0%	7.2%
Civilian Employment (Thousands of Persons)†	Jun '82	99,764	100,117	100,430
Unemployment as % of Civilian Labor Force†	Jun '82	9.5%	9.5%	7.4%
Personal Income*	Jun '82	$ 2,561	$ 2,553	$ 2,398
Leading Indicators Composite Index (1967=100)†	Jun '82n	127.9	127.9	135.2
Industrial Production Index (1967=100) †	Jun '82	138.4	139.4	152.9
Net Change in Consumer Installment Credit†	May '82	$ 1.40	$ 1.18	$ 1.57
U.S. Merchandise Trade Balance †	Jun '82n	–$ 3.44	–$ 3.29	–$ 3.28
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	Jun '82	911	1,075	1,046
New Construction Expenditures*	May '82	$ 229.2	$ 226.2	$ 240.9
Total Business Inventories†	May '82	$ 505.7	$ 510.1	$ 490.3
Total Business Sales†	May '82	$ 349.0	$ 340.5	$ 349.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

bpd (period ending July 16), reflecting falling prices and efforts to rebuild inventories. In spite of this rise in imports, crude oil inventories fell by about five per cent between the week ending May 21 and the week ending July 16. But in the same period gasoline stocks rose by six per cent as the oil companies prepared for the greater use that accompanies the summer vacation season. Further, although gasoline consumption for the four-week period ending July 16 was about six per cent below consumption for the four weeks ending May 21, a gradually rising consumption pattern has been evident since early June. Recently reported increased sales of larger, less fuel-efficient automobiles by U.S. manufacturers may also add to gas consumption.

. . . May Help Deflate Inflation

So far, however, the decline in oil prices has not yet resulted in a significant decrease in the price of gasoline at the pump. There is a lag between oil price declines and the time when they are reflected at the retail level. This time, this lag may be longer than usual due to the substantial existing inventories of crude oil and gasoline which the oil companies purchased when world prices were higher. Thus, the overall petroleum market picture is one of rising consumption, ample availability of petroleum products and the prospect of easing prices.

It is evident that the OPEC production quota agreement to hold production down to 17.5 million bpd is not being observed. Several OPEC countries

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (7/14/82)	140,087	+ 1,885	+17,959
New York City (7/14/82)	34,846	– 193	+ 5,206
Commercial Paper (7/14/82)	181,285	– 296	+30,155

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/14/82)	212,092	– 279	+30,841
New York City (7/14/82)	60,779	+ 408	+ 7,742

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/14/82)	489,071	– 933	+45,317
New York City (7/14/82)	115,301	+ 169	+ 8,893

Financial Markets

	Friday 7/30/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.15%	– .57	– 5.30
180-Day Bills†	11.47	– .33	– 4.63
Longest Bills†	12.16	– .24	– 3.79
Recent Issues:			
13 1/8s 7/31/84 (When Issued)	12.80	– .32	
14 7/8s 6/30/86	13.40	– .14	
13 3/4s 5/15/92	13.46	– .18	
14s 11/15/11	13.30	+ .01	
Municipals:			
Bond Buyer–20 Bond Index* (7/29/82)	11.97%	– .04	+ .53
Blue List Total ($ Million)	$ 918	+ $136	+ $ 49
30-Day Visible Supply ($ Million)	$2,515	– $ 92	+ $917
Total	$3,433	+ $ 44	+ $966
Corporates:			
Moody's Aa Composite (7/29/82)	15.06%	+ .10	+ .03
30-Day Visible Supply ($ Million) ‡	$1,260	+ $125	NA
Stocks:			
Dow-Jones Averages:			
Industrials	808.60	– 21.97	– 143.74
Transportation	308.75	– 9.60	– 97.93
Utilities	103.22	– 3.23	– 6.37
65 Stocks	310.56	– 8.96	– 61.07
Standard and Poor's 500 Stocks	107.09	– 4.08	– 23.83
N.Y.S.E. Composite Index	61.51	– 2.30	– 14.44
N.Y.S.E. Avg. Daily Vol. for Week (000's)	46,544	– 9,892	+ 4,386

* 46% Taxable equivalent 22.17%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

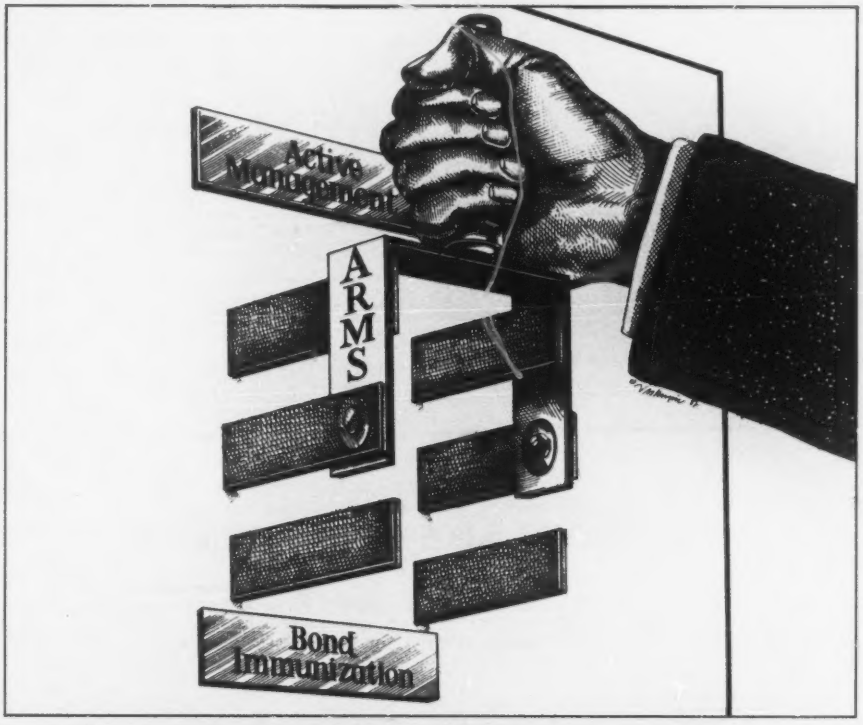
International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/30/82	Week Ago
Overnight	11.38%	10.88%
1 month	12.19	11.81
3 month	13.06	12.63
6 month	13.94	13.63
1 year	14.00	13.88
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.40%	14.40%
Long Term (7 to 15 yrs.)	14.55	14.55

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/30/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02136	46.82
Canada	.7950	1.2578
Denmark	.1173	8.5275
France	.1467	6.8175
Germany	.4074	2.4545
Italy	.0007274	1374.80
Japan	.003906	256.03
Mexico	.02044	48.93
Netherlands	.3686	2.7130
Switzerland	.4779	2.0923
U.K.	1.7395	.5749

have found the recent decline in their revenues unacceptable in terms of their needs and the expectations of their people. In the face of continuing prospects for low economic growth worldwide it is probable that global petroleum markets will continue to face periodic oil "gluts" which will temporarily force prices down. However, a balance between the supply and demand for petroleum remains elusive.



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